

CHIEF ADMINISTRATIVE OFFICE
CITY OF NEW ORLEANS

MITCHELL J. LANDRIEU
MAYOR
July 19, 2012

ANDREW D. KOPPLIN
FIRST DEPUTY MAYOR & CAO

Richard J. Hampton, Jr.
CEO / Secretary – Treasurer
Board of Trustees of the Fire Fighter's Pension and Relief Fund
3520 General DeGaulle, Suite 3001
New Orleans, LA 70114

Dear Mr. Hampton:

Mayor Landrieu asked me to respond to your letter dated July 16, 2012, regarding the Fire Fighter's Pension and Relief Fund for the City of New Orleans.

I want to thank you for taking so much time during the last year to discuss the pension fund and other related issues with me and other members of the city administration. These discussions have been very useful in narrowing the range of estimates of various issues and in generating a shared understanding of the challenges and opportunities we face.

As your letter notes, the system's actuarial study for January 1, 2012, used to prepare for the City's 2013 fiscal year budget, demonstrated a total amount needed, assuming no changes are made to the plan, of \$32.2 million next year. Your letter also states that "the Board of Trustees is committed to providing \$15 million in annual savings commitments." The Board's commitment would leave \$17.2 million remaining to be funded by the City. You further ask that the City commit to closing this gap.

With the Board's commitment of \$15 million in annual savings, the City would propose the following as the framework for a solution for 2013 and for the medium term, which will provide the City with some budget certainty, and the fund and its members the sense of retirement security they deserve:

- The Mayor's budget will include \$16.2 million from the General Fund for 2013 for the "New" Firefighters Pension and Relief Fund.
- The Mayor's budget will include \$19 million from the General Fund for 2013 for the "Old" Firefighters Pension and Relief Fund.
- Any funding needs for the "Old" Fund below \$19 million per year in years beyond 2013 will be directed toward the "New" Fund.
- Savings of an additional \$1 million (\$11 million instead of \$10 million noted in your letter) will be achieved based on the actuary's actual projection of savings due to proposed changes to implement the 30-year amortization and 7-year smoothing that has been discussed.
- A mechanism would be implemented, similar to triggers adopted in other cities, to cap the rate of annual growth in general fund budgetary requirements for the City's pension funds, by

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smoothing or otherwise making policy changes as a way to better manage the impact in terms of yearly budget changes.

The Board would use its existing authority to enact immediate changes to implement your proposals, and agree to pursue permanent legislative changes where appropriate, that yield \$15 million in 2013 annual savings, and commensurate savings in years beyond 2013 as follows:

- (1) Limit interest rate adjustments on DROP balances to those members clearly indicated in statute. Develop an agreed upon amendment to the funds' statutory authority for submission to the legislature during the 2013 legislative session that establishes a permanent approach to tie potential returns on DROP balances to funding ratio, risk and reward, and smoothing of market returns.
- (2) Agree to abide by the limitations prescribed for state pension funds by state law and the Louisiana State Constitution regarding the awarding of cost of living adjustments for members of both the "Old" Fund and the "New" Fund and make this a permanent part of state law.
- (3) Adjust assessment rates of members to 10% effective January 1, 2013. Secure legislative passage of state law changes to amend §3363B to remove the prohibition on assessing pension fund contributions from employees with twenty or more years of service, and adjust assessment rates for those members affected by these changes in state law to ensure that 10% of each member's total salary earnings in 2013 are contributed to the "New" Fund in fiscal year 2013.

The Board would also make policy adjustments as proposed:

(4) Adjust the actuarial amortization period to 30 years with 7 year smoothing. As noted previously, this change has been estimated to reduce annual needs by \$11 million. As you requested, all of these changes would go to supporting the retirement funds, and would require additional general fund support from the city, not less.

In terms of governance of the retirement funds, we would propose to develop a jointly agreed process to change governance of the board by adding three additional members. Additional members could be the City of New Orleans Chief Administrative Officer or designee, and/or additional members to be appointed by the Mayor and confirmed by the City Council from a set of nominations submitted by private colleges and universities.

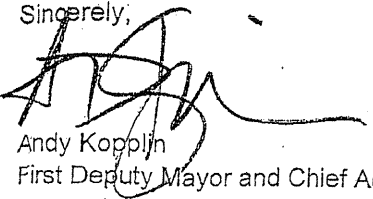
We would also jointly adopt a set of shared principles established by appropriate mechanism (state law, CEA, board policy, ordinance) that address issues including:

- Investment policy
- Cost of living policy and annual decisions
- Policies on interest and relationship to fund return for DROP and related balances:

Any modifications of these shared principles in future would require a two-thirds vote of all members of the board of trustees.

You asked that the city respond to your letter with a viable plan of action. On behalf of the Mayor, this letter makes such a proposal. We look forward to reaching a shared understanding between the City and our current and retired firefighters to ensure there is a viable, sustainable and affordable retirement system for firefighters now and in the future.

Sincerely,



Andy Kopplin
First Deputy Mayor and Chief Administrative Officer

cc: Mayor Mitchell J. Landrieu
Honorable Jacquelyn Brechtel Clarkson, Council President/Councilmember-at-Large
Honorable Stacy Head, Council Vice President / Councilmember-at-Large
Honorable Susan G. Guidry, Councilmember District "A"
Honorable Diana Bajoie, Councilmember District "B"
Honorable Kristin Gisleson Palmer, Councilmember District "C"
Honorable Cynthia Hedge-Morrell, Councilmember District "D"